

New Class A Contribution Rate Increases Employer Cost

Starting July 1, 2002, employers will pay 20 percent more in Class A contributions. Class A contributions for both employees and employers will increase from 5 percent to 6 percent of salary for a combined contribution rate of 12 percent. This increase was mandated by a law passed during the 2000 legislative session. Although the increased contribution rate will not begin for another year, employers need to begin their budgetary planning now to be ready for the higher contribution cost.

To prepare for this increase, employers of Class A members will need to raise their SDRS contribution budgets by 20 percent beginning July 1, 2002. For

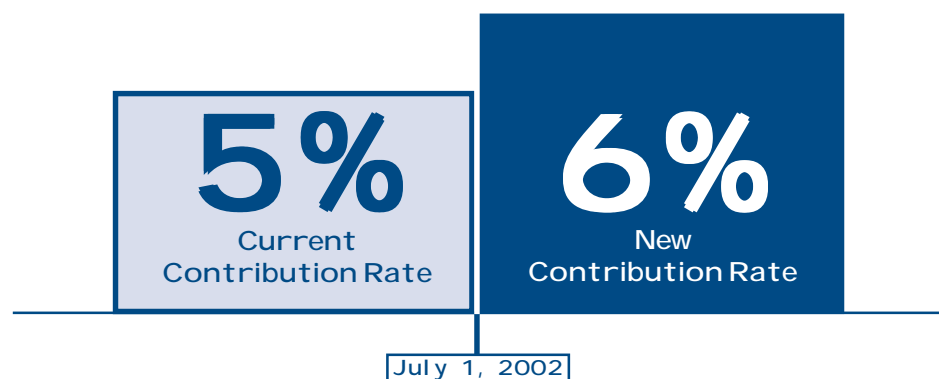
example, an employer that has a \$1.5 million payroll currently budgets \$75,000 (5 percent) for SDRS contributions. For the year starting July 1, 2002, that employer will need to increase its SDRS contribution budget by an additional 20 percent, or \$15,000, even without any consideration of salary increases. This action will raise the employer's annual SDRS contributions to at least \$90,000.

Until July 1, 2002, Class A members and their employers will both continue to make contributions equal to 5 percent of pay. Contribution rates for Class B Judicial and Class B Public Safety members will not change. [UpDate](#)

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20 percent Increase in Employers' Class A Contribution Rate



Since UpDate charts are for illustrative purposes, the numerical data may be rounded.

SDRS Reminders

June Contributions and Reports Have A July 15 Deadline

Both contributions and the contribution report for June should be submitted by July 15. The recap report, disk, and contributions need to be sent to the Sioux Falls Remittance Center, P.O. Box 5055, Sioux Falls, SD 57117-5055

June contribution payments submitted after July 15 will be delinquent. The Legislature has established a 5 percent penalty plus an interest charge of 15 percent a year for delinquent contributions.

Ending Optional Spouse Contributions

Members who purchase Optional Spouse Coverage make contributions for that option only until their spouses become 65 years of age. Please remind employees to notify their authorized agent when their spouses turn 65 so that Optional Spouse contributions may be discontinued.

The Face Behind the Voice: Laura Snoderly

Because Laura Snoderly has been with SDRS for nearly four years, her voice is familiar to many authorized agents. Laura is employed as a secretary in the records department, where she has a broad scope of responsibilities. Agents and members who have questions about Form B-1, "Termination of Contributory Service,"

beneficiaries and related matters will find Laura to be a dependable source of information.



Coming to Terms:

Beneficiary

Beneficiary: the person designated by an SDRS member to receive any payments after the member's death.


A member who filed an SDRS Form E-1, "Application for SDRS Enrollment," upon current employment after October of 1996, automatically designated his or her current spouse as beneficiary, unless the member completed an SDRS Form E-5, "Beneficiary Designation Form." A member who has been continuously employed should evaluate whether his or her current beneficiary form is correct. If a Qualified Domestic

Relations Order has been filed, the member may have no flexibility to change the beneficiary form.

For a new hire, SDRS Form E-5, "Beneficiary Designation Form," must be completed if a member wishes to designate beneficiaries other than a spouse or children. A member may choose any person or persons as a beneficiary, but SDRS cannot make direct payments to minors. If a member's beneficiary is a minor who is not his or her child, the member should also designate a conservator to

accept the payments for the child.

If a member has not completed Form E-5, any beneficiary payment made after his or her death is paid in the following order:

1. To the member's spouse
2. To the member's surviving children in equal shares (if there is no surviving spouse)
3. To the member's estate (if there is neither a surviving spouse nor surviving children) 

The Way It Works: *Retire/Rehire*



SDRS is a tax-qualified defined-benefit retirement plan and operates under strict provisions outlined in the Internal Revenue Code. As a consequence, SDRS may not begin retirement benefits until a member has a complete and total separation of service/termination of employment. If retirement benefits begin before an actual separation of service, the member may incur severe tax penalties and the tax-qualified status of SDRS may be jeopardized.

Employers may be approached by an employee with a request to resign, start an SDRS retirement benefit and then be re-employed. While it is best not to rehire that employee until he or she has been separated from service for at least 30 days, the reality is that many rehire decisions occur immediately upon termination.

Separation of Service/Termination of Employment

Please be certain that:

- ▶▶ The employee has absolutely and unconditionally resigned; forfeited all continued rights to employment; and is considered a terminated employee for other employee benefits, including any group health or life insurance plan and any similar Section 125 plans or accounts.
- ▶▶ No agreement to rehire has been made informally or formally prior to termination

of employment. As an employer, you cannot make any promises or innuendoes that the terminating employee will be rehired and, in fact, should follow whatever normal practices are used to fill a vacant position.

- ▶▶ Any applicable accumulated annual leave, sick leave or early retirement has been or will shortly be paid to the member.
- ▶▶ If a commission or board governs your entity, the member's resignation has been accepted in the form of a motion that notes all employment rights are forfeited.
- ▶▶ If the terminating member is obligated under an employment contract that is prematurely terminated due to the resignation, any forfeiture provisions for premature termination must have been activated and not waived. If the provisions have been waived, the rationale for waiving them should be included in the motion to accept the resignation.

Re-Employment of a Terminated Employee

Please be certain that:


- ▶▶ If the former member is rehired, and if a commission or board governs your entity, the rehire decision, including the new salary and terms of

employment, is stated in a single motion, separate from the termination motion. In order for the separation of service to be valid, the employer must have discretion as to the salary and conditions of re-employment.

- ▶▶ If an employment contract is necessary, the rehire includes a new employment contract with the terms and conditions of the rehire fully specified.
- ▶▶ A criminal background check, if required by law, is completed.

Special Circumstances for Tenured Employees

For any employee who has tenure in employment, a 1975 attorney general's opinion ruled that any agreement waiving the continuing contract provisions, as established by law, may be against public policy and invalid. If tenure may not be legally waived, no separation from service may legally occur. Therefore, the retirement benefit may not be commenced if the employee returns to work with the same employer.

SDRS requires documentation from employers to ensure a complete and absolute separation of service has occurred. This documentation is necessary before the retirement benefit can begin. Please be certain to alert SDRS immediately if a re-employment situation develops. 

Another Look at Process: *Enrolling and Terminating Members*

Have new members complete SDRS Form E-1, "Application for SDRS Enrollment."

When you meet with terminating members, have them fill out Form B-1, "Termination of Contributory Service."

Whether your unit has a high or low turnover rate, new employees will arrive and other employees will leave. In either case, you are responsible for ensuring that SDRS receives the correct documentation.

Enrolling a New Member

When you meet with your new employees to tell them about SDRS membership, you should give them both the general brochure, *Income For Your Retirement*, and the Supplemental Retirement Plan brochure.

Then have the new members complete SDRS Form E-1, "Application for SDRS Enrollment," but please review the form with them before they complete it. When reviewing Form E-1:

- ▶ Tell the new members that SDRS contributions are tax deferred.
- ▶ Give them the Optional Spouse Coverage brochure and explain the option.
- ▶ Describe the Supplemental Retirement Plan.
- ▶ Point out the beneficiaries section in Form E-1. Explain that there is a standard order in the designation of beneficiaries (spouse, children, estate). Although this standard designation may be changed, doing so requires the completion of form E-5, "Beneficiary Designation Form." Unless a specific change in beneficiaries is

required, it is only necessary to complete Form E-1.

Once you have completed and signed Form E-1, please be sure to submit it to SDRS.

Terminating SDRS Membership

When you meet with terminating members, have them fill out Form B-1, "Termination of Contributory Service." You should also discuss the decisions they will have to make regarding their contributions. Vested members have three choices:


- ▶ They can leave their contributions with SDRS until they receive retirement benefits.
- ▶ They can withdraw them when they leave employment.
- ▶ They can withdraw them at a later date.

Non-vested members can leave their contributions with SDRS for up to 10 years before withdrawal.

If members want to withdraw their contributions, remind them that they must contact SDRS for a Refund Explanation packet.

Once you have completed and signed Form B-1, please submit it to SDRS.

Additional Information

For additional information about enrolling, terminating, or the forms involved in either process, please see the section "Forms" (beginning on page 55) in your *Authorized Agents Manual*. If either the new or terminating member has questions that you are unable to answer, please call SDRS at 773-3731. 



Web Note

For more information about the South Dakota Retirement System check out the Web:

www.state.sd.us/sdrs/